45:Stanford U. S-4, 5 1956 AD1 Formosa
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Annex "A," Subparagraph 3d,
Economic Background

BANKING AND CURRENCY

652 436 Modern banking, as it is known in the West, came into being on Formosa during the Japanese occupation. The first bank on Formosa was a branch of a Japanese commercial bank, the Churitsu Bank, which was opened in Keelung during the first year of Japanese rule (1895). The Bank of Taiwan was established in 1899. It had the exclusive right to issue currency and was designated as the fiscal agent of the colonial government. It also did commercial banking, accepting deposits and extending loans, and dealt in foreign exchange. The notes issued between 1899 and 1904 were convertible into silver or were exchangeable at par for Japanese yen. In 1904 notes convertible into gold were issued. On notes which were not secured by gold or silver reserves, the Bank of Taiwan had to pay a tax of 5 per cent per annum. This rate was reduced to 3 per cent per annum in 1935. With 453 agricultural and industrial development of the island, banks prospered. The following banks were operating in Formosa at the end of 1944:

453 The total deposits in banks as of December 31, 1954 was NT$3, 110 million, of which NT$1, 390 million was from public and governmental agencies. Nearly two-thirds of the total bank deposits in the province, NT$1, 957 million were held by the Bank of Taiwan.[3] These statistics indicate the dominant position of the Bank of Taiwan in the economic life of Formosa.

●436 Formosa enjoyed a stable currency before Japan attempted the conquest of China. After 1937, a period of inflation began. The amount of currency in circulation increased from 64. 2 million yen in 1936 to 536. 2 million yen in 1944. Through price- and wage-control and enforced savings, the Japanese administration was able to fight inflation. In 1945, however, the note issue jumped to a monthly average of 1, 568 million yen. There was a shortage of food and other consumer goods, and the whole system of economy broke down. Prices soared.

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3. Statistical Abstract of the Republic of China, 1955, Directorate General of Budgets, Accounts, and Statistics, Executive Yuan, Taipei, 1955, pp. 174-75.

436 Formosa came under Chinese control in November 1945. The same monetary unit was continued in circulation but was renamed the Taipi, or Taiwan dollar (T$). At the end of 1945, the total amount of currency in circulation amounted to T$2,311 millions. The dislocation of the credit system, the loss of the Japanese market, the acute shortage of consumer goods, and the urgent need to repair war damages led to the continuous expansion of note issues and bank credit. In three years, currency in circulation increased to T$142,041 million as of December 31, 1948.[4] In 1949, the Chinese National Government was moved to Formosa. The island was faced not only with an influx of refugees requiring consumer goods, but the need to finance a national army and a government administration. Inflation mounted. On June 14, 1949, currency notes reached the astronomical figure of T$527,000 million, and "cash orders," a substitute for currency issued by the Bank of Taiwan amounted to T$1,214,000 million. The total currency and substitute-currency in circulation was T$1,741,000 million. (A U.S. dollar was worth T$235,000.) Prices rocketed. At the last moment a financial crisis was averted by currency reform. On June 15, 1949 new currency was introduced, called Hsin Taipi or the New Taiwan dollar (NT$).

4. Financial Report of the Bank of Taiwan for 1948.

436 The old currency was converted to New
662 Taiwan dollars at T$40,000 to NT$1. The outstanding currency notes and cash orders were reduced to NT$44 million. A ceiling for the new note issue was set at NT$200 million, equivalent to U.S. $40 million at the official rate of NT$5 to US$1. The new note issue was backed by 100 per cent reserves of gold and foreign exchange.

Because of huge military disbursements and the need for the rehabilitation of government enterprises, the Chinese government was compelled to borrow heavily from the Bank of Taiwan. At the end of 1949, the total note issue reached NT$198 million, approaching the nominal maximum. During the following years the law was altered several times to permit the issue of "extra limit currency." (Extra limit currency may be secured by commercial bills of acceptance, warehouse receipts, and loans against packing or packed commodities.) The note issue steadily expanded; at the end of 1954 the total issue reached NT$1,043 million, five times the maximum limit. Despite the efforts of the government to avoid further inflation, general price levels increased with the increase in the amount of notes in circulation.

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Note Issue*

End of Year	Total Amount of Note Issue (NT$million)#	Indices of Note Issue (June 15, 1949 = 100)	Loans and Advances to Public Treasury x (NT$million)	Wholesale Prices Indices in Taipei (June 30, 1949 = 100)
1949	198	452	15	183
1950	248	569	497	345
1951	390	895	684	526
1952	589	1,350	681	544
1953	773	1,773	828	631
1954	1,043	2,390	1,138	616
1955y	1,164	2,650	not yet available	

* Statistical Abstract of the Republic of China 1955, pp. 164-67.

\# Amount of subsidiary currency is not included in these figures. At end of 1954 subsidiary notes in circulation amounted to NT$175 million.

x Granted to both the central and provincial governments.

y Chung-yang Jih-pao [Central Daily News], Taipei, Jan. 3, 1956, p. 3.

7: Joest--54-55 E-5 (no date) 1882 Formosans
116, 101, 437

Formosa is divided lengthwise into two sections; the Chinese inhabit the western half of the island, while the natives live in the eastern half. [55] Along the boundary there is a stretch of land 10 miles wide which is considered neutral territory. Here there are several hundred Chinese settlements, ranging from single one-storied houses to villages; in this section the two groups meet for barter.

15: U.S. Navy --24 [4] (no date) 1944 Formosans
116, 221, 591, 438, 602

"Temporary movements. The people who move to these industrial sites [MC: i.e. developing industrial centers like Keelung, Shinchiku etc.] leave their families, or perhaps only some of the children, with the grandparents on the farms. There is a constant traffic (largely on foot) between ancestral homes in the country and the houses of sons and daughters in town. A great deal of produce is carried into the city for private consumption in this fashion, and in turn various small goods are carried out again to the country. The continuing and strong relationship between the main house and all branches of a family is of very great importance in Chinese life."

VIII. IMPORTANT CITIES[3]

Keelung

439 Keelung City, the port for Taipei and northern Formosa, handles nearly one-half of Formosa's imports and a little more than one-fourth of all exports. Apart from factories which manufacture commercial fertilizers, wheat flour, and bicycles, it has ship-building facilities, a railway terminus, and warehouses. It also is a base for deep-sea and coastal fishing. The registered population in June 1953 was 170,000.[4]

Taipei

438 633 Taipei, located on the northern bank of Tan-shui River, is the largest city on the island, with an estimated population of over 700,000 in early 1956. It is the capital of

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3. Information on the important cities is taken from A.F. Raper and others, Urban and Industrial Taiwan, Taipei, Foreign Operations Administration and National Taiwan University, 1954, pp. 3-109.

4. The registered civilian population, apparently not including military personnel and foreigners.

633 Nationalist China's Central Government as well as of the Taiwan Provincial Government.[5]
438 It is the most important center for commerce and the heart of air, railway, and highway transportation. Institutions of higher learning are concentrated here. The scenic spots, Grass Mountain (Tsaoshan) and Peitou Hot Springs, are nearby, to the north of Taipei.

Taichung

438 The fourth largest city, relatively new and growing, Taichung is located in the middle of Taichung Plain and is one of the island's agricultural centers. It has a population of 222,000.

Tainan

Located near the China Sea and twenty-nine miles north of Kaohsiung, is Tainan, ancient capital of Formosa. It is an agricultural center for sugar-cane, rice, and peanuts and is important in fish culture. The population is about 250,000. Forts Provintia and Zelandia, constructed by the Dutch, and the temples of Confucius and Koxinga (famous general of the Ming Dynasty, 1368-1644) attract tourists.

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5. According to Ya-chou T'ung-hsin [Asia Foundation Bulletin], August 17, 1955, the seat of the Provincial Government will be moved to Taichung on October 1, 1955. For construction and other reasons this has not been realized as of March 1956.

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575 of the death of parents. This was a kind of mutual insurance. The association for mutual financial aid, called "hui," was a kind of temporary credit union.

438 361 Set-up of Towns and Cities: Although the life of farmers was highly self-sufficient, they had to exchange some of their products for agricultural implements and other daily necessities. In response to this necessity towns sprang up in the midst of this agrarian society. As will be seen from a map, Formosa has a fairly even distribution of towns along the western plain. The longest distance between two towns or villages in the plains area is under 10 miles; a distance of 6 miles is most common. This means that each individual lives with 5 miles or less of some town or village, and in one day or less can walk to the village center and back home. In other words, even though he walks, every farmer can sell his products and buy his daily necessities at some town or village between sunrise and sunset. Among the small towns and villages there are larger towns, and among larger towns there is an occasional city as a local center. On the whole, there is a systematic distribution of cities, towns, and villages. Obviously this was the result of natural growth in an agrarian society. After the Japanese occupation there were newly developed mining towns, fishing ports, sugar plantation towns, railway and

361 communication centers, recreational towns
438 or satellite towns close to the large urban areas. Even so, the traditional agrarian town-city set-up is still much in evidence.

441 3. Associations in the City: Cities in Formosa were mostly developed as the trading centers of agrarian society. Those cities with ports and trade with the mainland had attained a fair size. In 1897, two years after the Japanese occupation, the population of the biggest city in Formosa, Tainan, was 45,330. Its commerce and handicraft were differentiated, and largely organized into merchant guilds. During the Manchu rule there were in Formosa rice guilds, cloth guilds, sugar guilds, silk guilds, string guilds, paper guilds, drug guilds, timber guilds, hemp guilds, oil, needle and iron guilds, porcelain guilds, and tea guilds.[2] Usually the stores of each trade were concentrated in one street, and not infrequently the street was named from the trade. In Tainan there was a Rice Street, Oil-dealer Street, Bean-dealer Street, Fish-monger Street, Cloth Street, Silver-smith Street,

2. Yoshio Higashi: Economic History of Taiwan, 1944, Taipei, p. 304.

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Annex "A," Subparagraph 3e,
Economic Background

TRADE

I. DOMESTIC TRADE

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434 The most recent complete estimate of Formosa's national income reveals that, in 1951, domestic trade, including wholesaling and retailing, contributed a little more than 11 per cent to the gross national product.[1] This percentage, however, does not include production in terms of storage and transportation related to wholesaling and retailing. If this fact is taken into consideration, it would appear that domestic trade occupies a more important position in the formation of the national income than the statistical figure indicates. As of 1953, about 8.5 per cent of the total working population of 2.9 million were engaged in domestic trade.[2] Popular

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1. Industrial Development Commission, Industry of Free China, Vol. II, No. 5, Nov. 1954, p. 6. Many wholesaler may be engaged in foreign trade and other activities, but detailed classification is not available. Therefore the figure here is an approximate indication.

2. China News Press, China Annual 1954, Vol. 3, p. 77. For detailed breakdown, see the chapter on Population in this handbook.

438 belief has been, particularly in the postwar
434 years, that in Formosa more opportunities for money-making exist in trade and enterprise than in other fields.

A. Channels of Trade

438 The marketing system of Formosa is in
656 part free and in part controlled. Certain commodities are strictly in the hands of the government as far as production and distribution are concerned. Prices of some commodities
[436] are regulated and the movement of other commodities is controlled by the government. Some commodities are controlled in their production phase and some in their distribution phase. Since it is difficult to describe the marketing system in general terms, the process as it applies to a few typical commodities will be discussed.

Rice: To effect control on movements of rice, the Provincial Food Bureau has established seven food districts on the island - Taipei, Hsinchu, Taichung, Tainan, Kaohsiung, East Taiwan, and Penghu - designating each as either "surplus," "self-sufficient," or "deficient." Only the Taipei and Penghu districts are considered deficient areas. Taichung, Hsinchu, Kaohsiung, and Tianan are surplus districts. The regional movement of rice is determined at the discretion of the Provincial

438 Food Bureau. Shipment of rice from one dis-
656 trict to another is prohibited unless prior permission has been granted by the local district office or a branch office of the Provincial Food Bureau. For example, a Taipei merchant cannot purchase and move rice from the Tainan district without permission from the district office of the Provincial Food Bureau in Tainan.

442 Within this framework of control, rice merchants engage in one or more marketing activities -- transporting, milling, wholesaling, or retailing. They may be roughly classified into eight groups:

1. Local wholesalers and retailers -- receive unhulled rice from farmers for milling and sell to local retailers or to wholesalers at transit market.

2. Wholesalers at transit market -- buy rice, mostly brown, from the local wholesaling mills and sell to wholesalers at consumption markets, say in Taipei. These merchants are usually located in Taichung and Hsinchu, and at times they utilize the service of brokers to effect sales.

3. Wholesalers and retailers at transit market -- their function is the same as the wholesaler at transit market, although

52:Barclay S-5 (nodate)1954 AD1 Formosa AD1

There was still another category, a somewhat subtler one, by which Japanese investment was injected into Taiwan's economy. This consists of what might be called organizational changes, like banking facilities and the formation of stable domestic markets for disposing of produce. Many such features had been notably absent before 1895, when most commodity markets were no more than local in scope, prices fluctuated widely, interest rates were usurious, and speculation was the principal business activity. This channel of influence was often not actually separate from others; some efficiencies of this sort appeared even as by-products of other more deliberate innovations. These advantages tended to flow from relations among the modern types of business organization. Hence such benefits went to Japanese businessmen, though they often opened up subsidiary avenues to wealth for a number of Taiwanese in commerce and in service enterprises.[18]

With no significant exceptions, the growth and spread of Japanese business activity in Taiwan served primarily to introduce capital into agriculture without greatly changing the operation of individual farms. It furnished a pattern of services between the fields and the markets in Japan through which to reap the economies of modern organization, and yet ensured that most of the proceeds were reinvested on the island in a pattern determined by official decision.

The Preparations for War

During the early or middle 1930's the Japanese Empire began to turn toward preparations for war. The colonies were called upon to increase the measure of their contribution in other lines of production besides Empire self-sufficiency in food. Taiwan was not abundantly endowed with the heavy stuff with which the war was to be made—metallic ores were lacking, and coal deposits were not plentiful—and so it was permitted to assume some of the burden of processing materials formerly supplied to Japan as agricultural and other primary produce. This decision did not issue entirely from military or strategic considerations, since in many cases it amounted to no

[18] Chartered banks were an exception. They harnessed funds for industrial investment, and were all owned and operated by Japanese. ". . . modern banks in Taiwan help to collect money from the population and loan it at a relatively low rate of interest to the big Japanese firms, while the Chinese [Taiwanese] have to apply for loans to other sources where they pay two to five times as high a rate of interest as that which the Japanese firms pay." Grajdanzev (1942), p. 126.

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439 1777 Though their books have a wealth of illuminating anecdotes ab the export trade, they provide almost no observations of any va about the ordinary affairs of the population. One might imag from reading such sources that everyone in Taiwan was engaged foreign commerce or some form of government service.[4]

These informants were, up to a point, honest men. They were trying to mislead, and deserve credit for considerable acuteness a sincerity. The most likely reason for their failure to inform us ab the Taiwanese is that they never had a chance to find out for the selves. Western merchants simply had no occasion to form more th special business associations with Taiwanese. Practically all of th transactions were conducted by contract merchants ("compradors as middlemen. Foreigners not infrequently made efforts to int fere in internal affairs, but these all arose over specific issues. T were attempts to make the social order more nearly serve their en not to alter it.

As in China, trading relations carried on in this manner did further the exchange of ideas along with commodities. They w contrived so as to minimize such interchange. This mutual aloofn worked both ways: it enabled outsiders to get along in ignorance conditions prevailing in the island, and at the same time shield the general population from contact with the outside world. Fore commerce, the foremost potential channel for innovation until conquest by Japan, was severely circumscribed by seclusiveness the parties on both sides.

1777 438 The reasons for this isolation are not all to be found in the h tility of officials or in the provincialism of Westerners. The fore ers were eager to obtrude their presence further into foreign tra even if only on their own terms. Government officers were too in as administrators, their conduct too deeply undermined by directi from above, to succeed in stifling any positive tendencies tow change if such had arisen. The real bulwark of conservatism beh

[4] These authors made better traders than ethnographers. They often did not go yond expressing impatience that Taiwanese should not follow 19th century Eng trading conventions. The best and most comprehensive of these works (Davidson, Ja W. [1905]), out of a total of 32 chapters, devoted only a single superficial one to "Inhabitants of Formosa," where the author did little more than describe the aborigi

The apparent exceptions prove the rule. If good material about those Taiwanes Chinese origin is scarce, books about the aborigines of the interior (of varying qua are not. Few Westerners penetrated to the dangerous mountain regions of Taiwan, all of them developed immense curiosity about the customs of these "savages," wh was not held toward the Chinese. See, for example, the titles in Takekoshi, Yosab (1907), pp. 321-342.

52:Barclay S-5 (nodate)1954 AD1 Formosa AD1

this nominal government policy existed within Taiwan's rural villages. The bulk of the population was made up of peasant farmers and small tradesmen, who supplied the commodities for most of the export trade. The fact that their products were exported did not bring them into closer touch with outside markets. Farming and other village activities did not reach beyond local boundaries; the arrangements for disposing of farm produce, as we have seen, were in different hands.

The rural population led a settled existence. Taiwan being a small area, travel between places was not uncommon, but it was rare for families to change residence from one part to another. With poor roads and chronic banditry, even minor journeys entailed some hardship and risk and so were undertaken chiefly for exceptional purposes. The same difficulties hindered the movement of commodities. Internal markets had not been very effectively developed to transfer articles of ordinary use from town to town; reports tell of wide variation in prices for standard items such as food, and of prohibitive hazards to products in transit.[5] Often products could be shipped to the coast and on to China more easily than to points elsewhere in the island.

Local stability fostered local solidarities. The inconvenience of communication helped rural settlements to become close-knit communities, by segregating certain cleavages and antagonisms that the Chinese had brought with them from the mainland. Many had come from different localities in Fukien and Kwangtung, and had maintained their ancestral clan affiliations. Members of these groups frequently settled together and did not intermarry with others. Even many years after annexation by Japan, the Japanese found that several communities had kept themselves free of mixture with other groups. For these various reasons, village organization in many respects became self-contained and self-sufficient.[6]

Property institutions helped to buttress the stability in these small communities. In Taiwan, as in China, land ownership was the only durable form that substantial wealth could take. It was durable

[5] Takekoshi, Yosaburo (1907), pp. 252 and 269-270.

[6] The turbulent history of Taiwan has often carelessly represented as one of indiscriminate civil disorder, its early population as "unruly." It is noteworthy that most of the disturbances apparently followed the lines of cleavage above. Far from portending a breakdown of tradition within the Chinese settlements, these incidents were contests of strength between distinct parties—powerful clans, government forces, and aboriginal tribes. None was directed against the form of the social order itself, and none ever threatened that order.